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FM AMEMBASSY YEREVAN  
TO RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE 0548  
RUEADWW/WHITE HOUSE WASHDC IMMEDIATE  
RHEHNSC/NSC WASHDC IMMEDIATE  
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION WASHINGTON DC IMMEDIATE  
RUEHC/SECSTATE WASHDC IMMEDIATE 7674  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY  
RUEKJCS/SECDEF WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 03 YEREVAN 000490

SIPDIS

FOR MCC CEO DANILOVICH, MILLENNIUM CHALLENGE BOARD  
STATE FOR S, F, D, P, E, EUR/FO, EUR/CARC, EUR/ACE, EEB, DRL  
USAID FOR ADMINISTRATOR  
WHITE HOUSE FOR USTR  
NSC FOR MARIA GERMANO  
TREASURY FOR SECRETARY AND MCC-RELATED POLICY STAFF

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TAGS: [PREL](#) [EAID](#) [PGOV](#) [PHUM](#) [KDEM](#) [AM](#)  
SUBJECT: JUNE 13 LETTER TO AMB DANILOVICH FROM PRIME  
MINISTER SARGSIAN ON MCC

REF: A. YEREVAN 429 B. YEREVAN 426

Classified By: Charge d'Affaires Joseph Pennington, reasons 1.4 (b/d).

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PM SARGSIAN URGES BUSINESS AS USUAL ON MCC  
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¶1. (SBU) Late on June 13 post received a letter from Prime Minister Tigran Sargsian, writing in his capacity as Director of the MCA-Armenia Governing Council, addressed to Ambassador Danilovich. The letter requests the next disbursement of funds from the MCC, including for the previously delayed package of road construction contracts. The PM makes the case that the Armenian authorities have been sufficiently responsive to USG concerns on human rights and democratization issues to merit a return to business-as-usual on the MCC program. Post strongly believes that, while there have been some tentative first steps, Armenia has a long way to go to address our concerns. We repeat the text of the letter below, followed by post comments on the PM's arguments (para 2).

Begin text of letter:

June 13, 2008

H.E. Ambassador JOHN DANILOVICH  
Chief Executive Officer  
Millennium Challenge Officer  
Washington D.C.

Dear Ambassador Danilovich,

Enclosed I am sending to you the MCC Disbursement Request (DR) for July - September 2008, which we discussed and approved at the MCA-Armenia Governing Council meeting today, June 13, 2008. In particular, within the DR package, the Council has resubmitted the total commitment and the quarterly cash requirement for the Package I of the Rural Roads Rehabilitation project. The package includes 272 km of rural roads repairs works that constitute a vital part of the National Lifeline network of roads.

Another decision of the Council was to extend the validity of the contractors' bids under the above project until July 9, ¶2008. With the soaring prices of oil and construction

materials, we are at risk of losing the current year for any construction activity if we go beyond that date.

Meanwhile, I am fully aware of the preconditions that MCC has posed in regards to approving the contract awards for Package I Roads project. As mentioned by President Serzh Sargsyan in his recent telephone conversation with you, we have been able to move quickly in easing the recent political tensions.

In particular, on June 11 the National Assembly has adopted in the second and final reading the amendments to the Law on Rallies and Demonstrations, which fully incorporates the advice and opinion of the Venice Commission. The President plans to sign it into law shortly.

The Parliament has also initiated the creation of the ad hoc Commission for investigation of events that unfolded in Yerevan on March 1-2. It is expected that before June 16 the commission will take its full shape and mandate for further investigation. Let me assure you that it is going to be inclusive, and allow for open exchange between parliamentary and extra-parliamentary forces, and will do everything to benefit from international expertise.

In another move the parliamentary majority has initiated and adopted in the first reading amendments to the By-Laws of the National Assembly, which increase the powers and instruments available to the parliamentary opposition, in line with resolution 1601 (2008) of the Parliamentary Assembly of the Council of Europe.

In line with recommendations of OSCE/ODIHR the authorities of the Republic of Armenia have initiated amendments to the Electoral Code. A non-partisan working group has been formed with invitation to extra-parliamentary forces, and a first draft has been already forwarded for consideration by the Venice Commission and ODIHR.

It was also decided to initiate establishment of the Public Council, which is viewed as a forum of open dialogue with Civil Society. The working group cooperates closely with all interested stakeholders, as well as with the international community in Yerevan, including USAID, to work out the best possible structure, mandate and composition of that Council.

These are only a few steps in the long chain of steps, which we plan for advancement of democratic institutions and competitive markets in the Republic of Armenia. We are committed to building stable and sustainable liberal democracy. Significant progress has been also registered in the direction of combating corruption, reducing poverty and increasing investments in people, as well as in improvement of the business climate, particularly through reforms in tax and custom administration. We are confident that all this will allow us to improve the indicators for Armenia in future evaluations.

I hope that your review of the Disbursement Request will be positive which would allow us to move quickly on the MCA implementation. Let me also reiterate our continued willingness to keep in close touch with the MCC and the US Embassy in Yerevan to discuss any outstanding issues that may stand on the way of speeding up the implementation of MCA-Armenia program.

Sincerely,

/s/

Tigran Sargsyan

End text of letter.

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POST ANALYSIS: GOAM HAS FAR TO GO  
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12. (C) Post believes that the PM's letter is a positive sign that the GOAM has gotten the message that Armenia's MCC program is in jeopardy, and that the Government urgently seeks to get the program back on track. We also agree with the PM that some of the recent steps highlighted in the letter could represent progress. However, most of the steps referred to in the letter have only been taken in the past several days as the Government seeks to convince the Parliamentary Assembly of the Council of Europe that it is making a good-faith effort to comply with the PACE resolution to be discussed later this month in Strasbourg. At this point, we view these efforts as tentative first steps in the right direction, but will need time to determine whether they represent a serious commitment to engage in real reform. Most importantly, the Armenian reform effort is so far little more than a paper exercise -- we need to see how these measures will be implemented.

13. (C) The amended law on rallies is a good case in point. As the Prime Minister implies, the new law, assuming it is signed by the President, represents a substantial improvement over the hastily-drafted amendments passed at the end of the State of Emergency period. However, in practice the authorities have yet to authorize a significant outdoor rally for the opposition. More than 40 applications for permission to hold rallies have been denied, including a request to assemble in Freedom Square on June 20. The opposition has submitted a second request for a June 20 rally, this time for the space in front of Yerevan's manuscript museum (Matenadaran). The authorities have an opportunity to demonstrate their commitment to the spirit of democratic reform by allowing that rally to take place.

14. (C) Neither the Government's proposal for a Public Chamber nor the proposed parliamentary investigation is viewed as credible by opposition or civil society groups. Heritage Party leader Raffi Hovanissian recounted to CDA on June 7 his efforts to find out from his ruling party colleagues in parliament how the Public Chamber would be organized, how it would operate, and what its function would be. Hovanissian was told that there is "nothing on paper" as of yet, leading him to conclude that the proposal is not serious. Similarly, Hovanissian said his party is reluctant to participate in the proposed parliamentary investigation, arguing that the Government's proposal would result in an investigative body tilted 8-3 in favor of the ruling coalition. The largest single opposition force, led by LTP, would have non-voting status. Again, Hovanissian believes the Government is engaged in what he called "imitation" reform to appease the international community.

15. (C) On the critical issue of political detainees, which could hold the key to unlocking a real dialogue with the opposition, there has been little if any progress. Although we have seen the first acquittals of March 1 defendants this week, others continue to be convicted and sentenced based on flimsy evidence and dubious court procedures. Dozens of LTP's top lieutenants remain in jail, and another was arrested earlier this week.

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POST RECOMMENDATION  
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16. (C) In our view the steps outlined by the Prime Minister, even in the most benign interpretation, fall far short of what we should be looking for to put our MCC assistance program back on track. We believe that any response to the PM's letter should commend the steps the GOAM has taken, urge that those measures be fully implemented in the spirit of restoring full democratic rights, and that additional steps (along the lines we suggested in the non-paper) be taken soon. We believe our firm line is having the desired effect. Now is not the time, in our view, to take the pressure off.

PENNINGTON